

Message Text

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INFO OCT-01 EUR-12 IO-10 ISO-00 AGR-05 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

FRB-03 OMB-01 SIL-01 L-02 EA-06 /066 W

----- 007188

R 271550Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9710

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 04767

E.O. 11652: GDS

TAGS: ETRD, UK

SUBJECT: PRESSURES IN THE UK FOR IMPORT RESTRICTIONS

REF: (A) STATE 64748; (B) LONDON 4589; (C) LONDON

A-255; (D) LONDON A-240; (E) LONDON 3460; (F) LONDON

4700

SUMMARY: CERTAIN SECTORS OF INDUSTRY (MAINLY TEXTILES),
THE TRADE UNIONS, SOME ACADEMIC ECONOMISTS AND THE
LEFT WING OF THE LABOUR PARTY ARE ALL PRESSING THE
BRITISH GOVERNMENT TO IMPOSE IMPORT RESTRICTIONS. THE
GOVERNMENT IS RESISTING THIS PRESSURE, AND WE EXPECT IT
WILL CONTINUE TO DO SO FOR THE FORESEEABLE FUTURE.

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THE PRESSURE FOR CONTROLS IS ONE REASON WHY THE UK HAS

BEEN SLOW TO AGREE TO THE RENEWAL OF THE OECD TRADE PLEDGE. THE PLEDGE IS CONSISTENT WITH THE GOVERNMENT'S POLICY, BUT IT WOULD BE EASIER FOR THE BRITISH TO RENEW IT UNDER PRESENT CIRCUMSTANCES IF THE OECD COULD AT THE SAME TIME RECOGNIZE THE OBLIGATION OF SURPLUS COUNTRIES TO ASSIST DEFICIT COUNTRIES IN CORRECTING THEIR PAYMENTS IMBALANCES. END SUMMARY

1. DESPITE THE OVERALL DECLINE IN BRITAIN'S INDUSTRIAL PRODUCTION, THE PRESSURE FROM INDUSTRY FOR IMPORT CONTROLS IS NOT WIDESPREAD. MOST OF IT COMES FROM THE TEXTILE PRODUCERS. TEXTILE IMPORTS REMAIN AT A HIGH LEVEL DESPITE A SHARP FALL IN DOMESTIC DEMAND. THE HIGH LEVEL OF IMPORTS IS DUE PARTLY TO LOWER PRICES ABROAD, BUT ALSO TO THE BRITISH INDUSTRY'S INABILITY

TO MATCH THE QUALITY OF CERTAIN FOREIGN PRODUCTS. A NUMBER OF TEXTILE FIRMS HAVE GONE OUT OF BUSINESS, AND SEVERAL OTHERS HAVE CLOSED FACTORIES. THOUSANDS OF WORKERS HAVE EITHER LOST THEIR JOBS OR ARE WORKING PART TIME. THE PRODUCERS CLAIM THAT THEIR INDUSTRY WILL SUFFER IRREPARABLE DAMAGE UNLESS STEPS ARE TAKEN TO LIMIT IMPORTS.

2. THE TEXTILE IMPORT MONITORING SYSTEM WHICH IS BEING INTRODUCED BY THE UK ON APRIL 3 (REFTELS A AND B) IS DESIGNED TO BLUNT SOME OF THIS PRESSURE. HOWEVER, IT FALLS FAR SHORT OF THE REQUEST BY THE BRITISH TEXTILE CONFEDERATION FOR EMERGENCY RESTRICTIONS TO REDUCE IMPORTS BY 20 PER CENT BELOW 1974 LEVELS. THE GOVERNMENT HOPES THAT SOME OF THE UK'S TEXTILE IMPORTS WILL BE DIVERTED TO OTHER EC MEMBER STATES UNDER THE COMMUNITY'S TEXTILE BURDEN-SHARING POLICY THAT WAS ADOPTED LAST OCTOBER. THE GOVERNMENT IS ALSO URGING BRITISH RETAILERS AND MANUFACTURERS TO BUY MORE DOMESTICALLY PRODUCED GOODS.

3. OTHER INDUSTRIES THAT HAVE EXPRESSED CONCERN OVER IMPORTS ARE SHOES AND AUTOMOBILES. THE SHOE PRODUCERS ARE CONCERNED OVER LOW-PRICE IMPORTS FROM EASTERN

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EUROPE. THE AUTO INDUSTRY IS FACED WITH INCREASING SALES OF IMPORTED CARS, MAINLY FROM JAPAN, WHICH ARE AT LEAST PARTLY DUE, HISTORICALLY, TO THE FACT THAT BRITISH MANUFACTURERS HAVE BEEN UNABLE TO MEET DOMESTIC DEMAND. BRITISH LEYLAND HAS BEEN TRYING TO WORK OUT VOLUNTARY RESTRAINT SCHEMES WITH JAPANESE EXPORTERS.

4. THE TRADE UNIONS HAVE RECOMMENDED IMPORT CONTROLS AS PART OF AN EXPANSIONARY POLICY THAT THEY WANT THE GOVERNMENT TO ADOPT. IN ITS ANNUAL ECONOMIC REVIEW RELEASED EARLIER THIS MONTH (REF C), THE TUC ADVOCATED A TEMPORARY IMPOSITION OF IMPORT CONTROLS FOR SELECTED MANUFACTURED AND SEMI-MANUFACTURED GOODS TOGETHER WITH THE INTRODUCTION OF AN IMPORT DEPOSIT SCHEME.

5. THE IDEA OF IMPORT RESTRICTIONS WAS GIVEN SOME

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FRB-03 OMB-01 SIL-01 L-02 EA-06 /066 W

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R 271550Z MAR 75

FM AMEMBASSY LONDON

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ACADEMIC RESPECTABILITY BY THE CAMBRIDGE ECONOMIC

POLICY GROUP IN THEIR FEBRUARY REVIEW. THEY STATED THAT "RESTRICTION OF IMPORTS BY QUOTAS OR HIGH TARIFFS...NOW APPEARS TO BE THE ONLY WAY IN WHICH THE TRADE DEFICIT CAN BE REDUCED WITHOUT EITHER VERY HIGH UNEMPLOYMENT OR VERY LARGE FALLS IN THE EXCHANGE RATE." OTHER COUNTRIES, THEY ARGUED, WOULD BE HURT AS MUCH BY DOMESTIC DEFATION IN THE UK AS THEY WOULD BY BRITISH IMPORT RESTRICTIONS. RETALIATION BY OTHER COUNTRIES WAS DISCOUNTED ON THE GROUNDS THAT THE ONES THAT WOULD HAVE THE MOST TO LOSE FROM CONTROLS ARE THE ONES THAT ARE MOST DEPENDENT ON UK MARKETS.

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6. THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH ALSO DISCUSSED THE QUESTION OF IMPORT RESTRICTIONS IN ITS FEBRUARY REVIEW. THERE MAY BE SOME AREAS, IT SAID, IN WHICH TEMPORARY CONTROLS WOULD BE INTERNATIONALLY ACCEPTABLE. THE AUTOMOBILE INDUSTRIES OF CERTAIN COUNTRIES, FOR EXAMPLE, MIGHT SUFFER PERMANENT DAMAGE UNLESS CONTROLS ARE INTRODUCED. THE INSTITUTE STRESSED, HOWEVER, THAT CONTROLS SHOULD ONLY RESULT FROM AN INTERNATIONALLY-AGREED ARRANGEMENT. IT DOES NOT FAVOR IMPORT RESTRICTIONS AS A WAY TO IMPROVE THE UK'S BALANCE OF PAYMENTS.

7. PRESSURE FROM WITHIN THE LABOUR PARTY HAS COME MAINLY FROM THE LEFT WING. THE SECRETARY OF STATE FOR INDUSTRY, ANTHONY WEDGWOOD BENN, HAS BEEN ADVOCATING IMPORT CONTROLS IN INTRA-PARTY DISCUSSIONS. AS A FOREIGN OFFICE OFFICIAL RESPONSIBLE FOR TRADE POLICY TOLD US, THE IDEA OF IMPORT CONTROLS CONFORMS TO BENN'S INTERVENTIONIST, PUT-BRITAIN-FIRST APPROACH TO ECONOMIC POLICY. FRANCIS CRIPPS, AN ECONOMIC ADVISER TO THE DEPARTMENT OF INDUSTRY, WAS ONE OF THE AUTHORS OF THE FEBRUARY CAMBRIDGE ECONOMIC REVIEW. BENN'S VIEWS ARE WIDELY SHARED BY LEFT WING MPS. THEIR WEEKLY JOURNAL, THE "TRIBUNE," CALLED ON MARCH 7 FOR "PHYSICAL CONTROLS" ON IMPORTS IN ORDER TO SAVE TWO BILLION POUNDS A YEAR ON THE TRADE ACCOUNT (SEE REF D).

8. IN THE FACE OF THESE VARIOUS PRESSURES, PRIME MINISTER WILSON IS HOLDING FIRMLY TO THE POSITION THAT BRITAIN SHOULD NOT INTRODUCE IMPORT CONTROLS. AS HE PUT IT IN PARLIAMENT ON MARCH 4, "IMPORT CONTROLS AS A GENERAL POLICY WOULD BE BAD FOR BRITAIN FROM THE POINT-OF-VIEW OF DEALING WITH THE BALANCE OF PAYMENTS" (REF E). WILSON HAS WHOLEHEARTED SUPPORT OF TRADE MINISTER PETER SHORE, AND SOMEWHAT LESS ENTHUSIASTIC SUPPORT FROM CHANCELLOR HEALEY.

9. THE MAIN REASON FOR THIS CONTINUED RESISTANCE,
ACCORDING TO BRITISH OFFICIALS, IS A BASIC AWARENESS
THAT A COUNTRY LIKE BRITAIN, WHOSE ECONOMIC ACTIVITY
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DEPENDS SO HEAVILY ON TRADE, CANNOT AFFORD TO EMBARK
ON RESTRICTIVE POLICIES. ANOTHER, MORE IMMEDIATE,
REASON IS THE FACT THAT THE IMPOSITION OF CONTROLS
COULD LEAD TO A ROW WITH THE EC COMMISSION OR THE
OTHER EC MEMBER STATES, WHICH IS THE LAST THING THE
GOVERNMENT NEEDS DURING THE EC REFERENDUM CAMPAIGN. THE
PRIME MINISTER'S POSITION IS REINFORCED BY THE FACT
THAT BRITAIN'S CURRENT ACCOUNT BALANCE HAS SHOWN
RECENT IMPROVEMENT. THE CURRENT DEFICIT FOR THE LAST
THREE MONTHS (DECEMBER - FEBRUARY) WAS 554 MILLION

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FRB-03 OMB-01 SIL-01 L-02 EA-06 /066 W

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POUNDS, COMPARED WITH 1074 MILLION FOR THE PREVIOUS THREE.

10. WE EXPECT THAT THE GOVERNMENT WILL HOLD FIRM TO ITS RESISTANCE TO GENERAL IMPORT CONTROLS FOR THE FORESEEABLE FUTURE, ALTHOUGH IT MIGHT CONSIDER INTRODUCING CONTROLS IN SPECIFIC AREAS IF PROBLEMS IN THESE SECTORS BECOME SUFFICIENTLY SERIOUS. OFFICIALS AT THE CONFEDERATION OF BRITISH INDUSTRY BELIEVE THAT THE GOVERNMENT COULD ALSO CONSIDER ADDITIONAL MEASURES TO ENCOURAGE EXPORTS, LIKE THE UK'S EXPORT INFLATION INSURANCE SCHEME.
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11. THE GOVERNMENT MIGHT RECONSIDER ITS OPPOSITION TO GENERAL RESTRICTIONS IF THE DOMESTIC SITUATION BECAME SO WEAK THAT THE GOVERNMENT FELT IT NECESSARY TO OPT FOR AN ALL-OUT POLICY OF REFLATION (WHICH IT IS NOT EXPECTED TO DO IN CONNECTION WITH THE APRIL BUDGET). IF THE GOVERNMENT DECIDED, IN THE END, TO IMPOSE ACROSS-THE-BOARD RESTRICTIONS, IT IS NOT CLEAR WHAT METHOD IT WOULD USE. ALL OF THE USUAL METHODS HAVE DISADVANTAGES. THE BRITISH LACK THE ADMINISTRATIVE MACHINERY FOR INTRODUCING IMPORT QUOTAS. AN IMPORT DEPOSIT SCHEME WOULD COMPOUND THE ALREADY SERIOUS CASH FLOW PROBLEMS IN BRITISH INDUSTRY. A SURCHARGE WOULD AGGREGATE THE CASH FLOW PROBLEM, AND WOULD BE INFLATIONARY AS WELL.

12. THE PRESSURE IN BRITAIN FOR IMPORT RESTRICTIONS IS ONE OF THE REASONS WHY THE UK HAS BEEN SLOW IN AGREEING TO A RENEWAL OF THE OECD TRADE PLEDGE. THERE HAS BEEN NO MINISTERIAL DECISION YET ON THE QUESTION OF RENEWAL. OFFICIALS EXPECT THE DECISION TO BE FAVORABLE, IN LINE WITH THE GOVERNMENT'S OVERALL POLICY ON IMPORT RESTRICTIONS, BUT THEY POINT OUT THAT IT WOULD BE EASIER FOR THE GOVERNMENT TO RENEW THE PLEDGE IN THE FACE OF CURRENT DOMESTIC PRESSURES IF THE OECD COULD TAKE ACCOUNT IN SOME WAY OF THE OBLIGA-

TION OF SURPLUS COUNTRIES TO ASSIST DEFICIT COUNTRIES
IN CORRECTING THEIR PAYMENTS IMBALANCES.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LOBBYING, TEXTILES, IMPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON04767
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750107-0649
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750310/aaaaairw.tel
Line Count: 335
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 64748, 75 LONDON 4589
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by ShawDG>; APPROVED <24 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESSURES IN THE UK FOR IMPORT RESTRICTIONS
TAGS: ETRD, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006